Saskatchewan
Agriculture
and Food

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Design your own farm accounting system.

Foreword

Adequate farm records are becoming an increasingly important management tool. As farm size increases both production management and tax management become more important. Setting up an accounting system is a step towards compiling farm information in a form you can use to file income tax, complete loan applications, and analyze your operation.

This publication is designed to help farmers set up an accounting system for their specific operation. The first step is to determine who will ultimately use the information (ie. Revenue Canada, the farm manager), and set up the system so it provides that information. A filing system should be set up so it results in easy retrieval of information from the system. A ledger system of recording income and expenses is discussed in this bulletin.

This publication is based on tax laws in effect at the time of printing. Any tax changes after the date of printing may affect the contents of this publication. Readers are cautioned to check with Revenue Canada about specific concerns.

For further information or additional copies of this booklet, contact your rural service center, Extension Farm Management Agrologist or the Farm Management Section, Saskatchewan Agriculture & Food, 329-3085 Albert St., Regina, Saskatchewan S4S 0B1.

Farm Management Section
Economics Branch
Saskatchewan Agriculture & Food

Designing Your Own Farm Accounting System

Page

Foreword 1

Accounting Defined 1
Uses of Farm Records 1
(1) Analyzing the Existing Business 1
(2) Future Planning 1
(3) Completing Income Tax Returns 1
(4) Obtaining Credit 1
(5) Settling Business Arrangements 1
(6) Settling Estates 1, 2
(7) Determining Employee Deductions 2
(8) Production Records 2

Proper Banking Procedures 2
(1) Selecting a Bank Account 2
(2) Number of Bank Accounts 2
(3) Why Use the Bank? 3
(4) Handling Expenses 3
(5) Handling Receipts 3
(6) Reconcile from the Cheque Register to the Bank Statement and Account Book 4
(a) Check the Bank Statement 4
(b) Check Entries in the Cheque Register 4
(c) Calculate the Cheque Register Ending Month True Balance 4
(d) Calculate the Bank Statement True Balance 4
(e) Enter to Account Book from Cheque Register 5
(f) Calculate the Account Book True Balance 5
(g) Timing of reconciling 5
(7) Monitoring Your Operating Loan 5

Handling the Paper Flow 6
(1) Material and Equipment 6
(2) Sorting Material 6
(3) Holding Material Prior to Recording 6
(4) Recording 7
(a) Source for Recording 7
(b) Record Systems Available 7
(5) Filing 8

Income Tax Considerations 8
(1) Cash vs. Accrual Accounting 8
(2) Calendar or Fiscal Year Reporting 8
(3) Statement of Farming Income and Expenses 8

Accounting for Income and Expenses 8, 9
(1) Definition 9
(2) Advantages 9
(3) Disadvantages 9, 10
(4) Setting Up and Entering in the Outflow Section 10, 11
(5) Setting Up and Entering in the Inflow Section 11
(6) Handling the More Difficult Entries 11
(a) Patronage Dividends 11, 12
(b) Employment Income 12
(c) Income Tax Deducted at Source 12
(d) Canadian Wheat Board Cash Advance 12
(e) Stabilization Levies 12
(f) Capital Items Under Construction 12
(g) Purchasing an Asset with a Trade In 12
(h) Other Difficult Entries 12

(7) Filing System 13

Worksheet to Reconcile Your Cheque Register to Your Bank Statement and Your Account Book 18

Wage Records 19

Credit Accounts Records 19, 20

Capital Transactions 20
(1) Construction Expenses 20
(2) Capital Purchases 20
(3) Capital Sales 21

Inventory and Net Worth 21
(1) Inventory 21, 22, 23, 24
(2) Net Worth 24

Income Tax Summaries 25
(1) Capital Cost Allowance 25
(a) Part XI Diminishing Balance Method 25
(b) Part XVII Straight Line 25
(2) Statement of Farming Income and Expense 27

Net Farm Income Statement 27, 28, 29, 30

Personal Spending Calculation 31

Accounting Defined

Accounting has been defined as the art of recording, classifying, and summarizing transactions and events in terms of money and interpreting the results thereof.

Accounting is not an end in itself; it is a useful tool. It is a language for communicating the financial facts about an enterprise or activity to those who have an interest in interpreting those facts. When designing an accounting system, first determine who will be the ultimate users of the information and set up your system accordingly.

Uses of Farm Records

One of your major responsibilities as a farm manager is making decisions. You must evaluate the past performance of your farm and based on your overall goals, make decisions about the future. One of the basic tools for farm decision making is a good set of farm records. They provide you with the means to assess past performance and identify the business problems which you must correct if you are to improve the financial performance of the business.

You can use your records to:

1. Analyze the Farm Business

Most management decisions are easier to make if you have accurate financial and physical information. Good records enable you to accurately assess the costs and returns for the total farm, and for individual enterprises. Records help you identify the strong and weak areas in your operation and these are the first steps in improving your operation.

2. Plan for the Future

Predictions and budgets for the future are much more reliable if based on accurate records of your farm's past results.

3. Complete Income Tax Returns

The Income Tax Act requires that you keep business records and all supporting documents necessary to verify the information contained therein. Effective September 20, 1982 you must keep records and vouchers for six years after the end of the year for which the records pertain. If you filed a tax return late, you must keep the records and vouchers for six years from the date of filing the late return. You should keep records of capital purchases (land, buildings, machinery) as long as you own the items. Business records must be in such a form and contain the information necessary to determine income tax payable.

If you don't have an adequate record system you may be paying more income tax than necessary. Any expense items that are lost or forgotten will result in additional income tax. Since the last dollar of tax will be paid at the highest marginal rate, it is even more important to obtain a written bill for all business purchases and to ensure that expenses are properly recorded.

4. Obtain Credit

Records provide valuable information for determining the soundness of a loan and for obtaining credit because they show past progress and indicate what security is available. Records help determine how much money you can borrow and repay safely.

Imagine you were lending a large amount of money to a farmer. You would need financial information before you could decide whether or not to make the loan. The better the borrower's records, the more sure you would be since you would have a better financial picture of the farm. If you as a lender have a good financial picture of the business and its repayment ability, you may be able to lend more than if you don't understand the business.

A good record system is one way to convince a lender and yourself that your plan is sound and your business is a good risk.

5. Make Business Arrangements

Business arrangements take many forms:

- You may share a mixmill or rock picker with your neighbours. Where assets are purchased jointly, keep records to indicate each person's share of each asset.
- Two brothers may have a Machinery Sharing Agreement whereby each owns individual machines but work together and share investment costs and operating costs such as fuel and repairs.
- A father and son may share all income and expenses from one unit.

Records help evaluate the fairness of operating arrangements and also serve as a basis for settlement. The more complicated the business arrangement, the more detailed the records must be.

6. Settle Estates

When you die, all your assets except those rolled to your spouse or, in certain situations, your child are considered to be sold. This may result in a large amount of income tax payable after all inventories, capital gains and recaptured capital allowances on machinery and buildings have been considered. A good set of records will be a great help to the executor of your estate. A good record system combined with an "Estate Plan" will fulfill your objective while keeping taxes to a minimum.

7. Determine Employee Deductions

It is a legal requirement that you keep records of employee deduc-

tions. You must deduct income tax, Canada Pension Plan and Unemployment Insurance from employees' wages and forward these to Revenue Canada by the 15th day of the following month.

8. Record Production

A record of yields of different crops over several years is useful in budgeting and in determining what crops to grow. By keeping track of different farm practices and the resulting yields, you can use those practices which result in higher net returns.

The ability of farm records to meet all of the listed uses will largely depend on their accuracy and completeness.

Proper Banking Procedures

1. Type of Bank Account

The type of bank account you choose should provide the following services:

a) provide monthly statements;
b) return your cancelled cheques;
c) provide a duplicate deposit book;
d) provide a cheque book which has:
   (i) prenumbered cheques
   (ii) cheque stubs or cheque register on which to write down all important details
e) have a minimal or no charge per cheque.

2. Number of Bank Accounts

Although it is not always practical to set up separate accounts, they do help improve record accuracy. Advantages are:

- Keeping two bank accounts completely separates your farm business transactions from your personal financial affairs. Your farm bank account provides a complete record of farm business transactions while your personal account shows a true picture of personal income and expenditures.
- Keeping a personal bank account makes personal budgeting easier because you set aside a given amount of money each month for your expenditures. Thus, your family knows how much to keep from farm income for personal expenditures each month. Budgeting decisions to determine the best way to spend this money can then be made.

The main disadvantage to two bank accounts is the added complexity since two cheque books must be carried instead of one. Bank accounts may need to be juggled at times to make sure there is enough money in each account. (Developing a system for budgeting and transferring money may eliminate this.)

Besides a chequing and personal account, establish a savings account. Keep excess cash in it or in bank term deposits to earn interest. Some banks have combination chequing and savings accounts which pay interest like a savings account depending on the account balance. This type of account eliminates the need for a savings account.

3. Why Use the Bank?

The ultimate goal is to write cheques for all expenses and deposit all Income intact into the bank account. If this is done, the monthly bank statement will provide you with a complete record of all your transactions. Writing cheques for all farm expenses reduces the need for carrying large amounts of cash. Using cheques increases the accuracy of farm bookkeeping since two documents results from each transaction. If you write cheques for all expenses, you can record farm transactions from a well kept cheque register.

Example of a cheque written to pay for a farm expense:

NATIONAL BANK #270

Joe Farmer
Box 215
Any Where, Saskatchewan
PH: 696-0000

Date Dec 29, 19xx

Pay to Fred's Fertilizer $6000.00

Six Thousand---------- xx Dollars
100

26 tonnes 35-15-0 Fertilizer
Invoice #2531

Joe Farmer

Fill out the cheque register for every cheque with: date, amount, what the cheque is for, who the cheque is to, and the invoice number. Write cheque numbers on the bill or invoice for which payment is being made.

If cheque stubs or register are properly filled out, the cheque book will provide a complete record of your cheque written to pay for a farm expense.

4. Handling Expenses

Write cheques for as many expenses as possible. When possible, write your cheques at home when you receive the statement or bill to help keep all records together.

5. Handling Receipts

Deposit in the bank the total amount of all receipts that you receive, both cash receipts and cheques. Don't cash cheques at stores, garages, etc.

Use a duplicate deposit book which will then give a record of all money received.

Record each cheque separately on the deposit slip and note what it is for.

When depositing a cheque, don't use the less currency section on the deposit slip. Write a separate cheque for CASH to withdraw currency.

Cross reference relevant documents to the deposit slip.

If the deposit book is properly filled out you will have a complete record of all your receipts.

Example of a cheque register

Cheque Register

Date	No.	Particulars	Cheques	✓	Deposits	Balance		
Dec 31	265	To Sask Pool	1200.00			Cheque		
		For heritage				or Dep.		
						Bal.		
Dec 17	266	To Sams Seed Cleaning	110.00			Cheque		
		For Clean Katewa				or Dep.		
						Bal.		
Dec 17	267	To Beaver Lumber	7.50			Cheque		
		For house wall				or Dep.		
						Bal.		
Dec 18	268	To Kids Cloths Store	85.00			Cheque		
		For clothing				or Dep.		
						Bal.		
Dec 19	269	To Drug Store	20.00			Cheque		
		For stationary & pens				or Dep.		
						Bal.		
Dec 29	270	To Freds Fertilizer	6000.00			Cheque		
		For 35-15-0 fertilizer				or Dep.		
						Bal.		
Dec 29	271	To Cash	400.00			Cheque		
		For				or Dep.		
						Bal.		
Dec 30	272	To Rec'r Gen. Canada	1000.00			Cheque		
		For Income Tax installment				or Dep.		
						Bal.		

6. How to Reconcile Your Cheque Register to Your Bank statement and Account Book

Reconciling is the procedure of showing that the cheque register agrees and is compatible with the bank statement and the account book. Reconciling ensures that all entries in the cheque register have been accounted for from the standpoint of the bank statement and the account book. When the cheque register is reconciled to the bank statement and the account book you can be certain that all expenses paid for by cheque, all income deposited in the bank account and all bank charges, debits and credits are included in your account book.

Example of entering income in a duplicate deposit book:

National Bank

Joe Farmer		Current Account		Acct. No. 00000
Name	Amount	Name Joe Farmer		
			X 1	
			X 2	
			X 5	
			1 X 10	10.00
			2 X 20	40.00
			X 50	
			X 100	
			Coin	
Sask. Pool #651 2OT 2RS	2,500.00	Total Cash		50.00
		Total Cheques		4,500.00
Bill Brown 3 cows	2,000.00	Sub Total		4,550.00
		Less Exchange		-------
Total Cheques (Carry Forward)	4,500.00	Total		4,550.00
		Deposited by		Joe Farmer

a) Check the Bank Statement

i) compare the canceled cheques with withdrawals shown on the bank statement to ensure that the bank statement is correct;

ii) circle the withdrawals that do not correspond to canceled cheques such as bank interest (expense and income), bank charges, other credits and debits and enter them in your cheque register;

iii) check the deposit book against the bank statement to ensure that the statement is correct. Enter all deposits not yet entered in the cheque register.

b) Check Entries in the Cheque Register

Check your cancelled cheques and deposits against your cheque register (each register if more than one). Put a checkmark in the ✓ column of the cheque register for each canceled cheque or deposit. Cheques or deposits not checked off in the ✓ column are outstanding.

c) Calculate the Cheque Register Ending True Balance

The cheque register ending month True Balance = Beginning month cheque Register True Balance —cheques column total (from all cheque registers if more than one) + deposits column total (from all cheque registers if more than one). Do the calculation of the cheque register true balance in the cheque register used by the person who keeps the farm records.

d) Calculate the Bank Statement True Balance

The Bank statement is not as up to date as your cheque register so adjustments must be made to the ending bank balance for outstanding cheques and deposits.

i) Total the dollar amount of outstanding cheques (from all cheque registers if more than one);

ii) Total the dollar amount of outstanding deposits (from all cheque registers if more than one);

iii) The Bank Statement True Balance = Ending Bank Balance —outstanding cheques + outstanding deposits.

If the cheque register true balance is equal to the Bank statement true balance then you know your cheque register is correct.

e) Enter into Your Account Book from Your Reconciled Cheque Register

The cheque register can be used to make entries into the farm account book. Two hole punch and insert income and expense vouchers into a shannon file as you make each entry. Either use a cardboard divider to separate inflow items from outflow items in one shannon file, or have a separate shannon file for inform and outflow vouchers. Any invoices left after entering from the cheque register must have been paid for with cash and are entered in the cash column of the account book.

f) Calculate the Account Book True Balance

The ending Account Book True Balance = previous month ending true balance – Total bank withdrawals from the outflow section of the account book + total bank deposits from the inflow section of the account book.

The True Account Book Balance should equal the true Cheque Register Balance and the True Bank Balance. If they are equal you can be sure that all expenses paid for by cheque, income deposited to the bank, and bank charges credits and debts have been included in your account book.

g) Timing of Reconciling

i) **When to Reconcile**
To ensure accuracy of your records you can reconcile monthly, quarterly, whenever you enter you records, or annually. The longer the time period you are reconciling for, the harder it will be to locate an error. Reconciling and entering in you account book on a monthly basis is recommended. If you do not have time to complete the whole process you should at least reconcile from your cheque register to your bank statement. Later when you enter into your account book enter up to the date when you reconciled from the cheque register to the bank statement, and reconcile to your account book on that date.

ii) **Reconcile with bank statement cut off in mid month**
If your bank statement cutoff is the 15th of the month and you receive your statement on the 20th of the month, you can reconcile from the 20th of last month to the 20th of this month as long as you total your account book on the 20th also. If you want to have your record totals by the month then reconcile at the end of the month. Total your account book at the end of the month. The only difference is that all the cheques written from the 20th to the end of the month will be outstanding. Totaling your records at month end may make it easier to prepare a monthly or quarterly cash flow projection for next year.

iii) **Reconciling with bank statement cut off at month end**
If your bank statement is cut off at month end and you receive it on the 5th, you could reconcile on the 5th. If you want to total our account book at month end then leave some extra spaces in your cheque register at the end of the month so you will have room to make entries for bank charges, interest deposits, etc. You can then reconcile at month end on the date your bank statement was cut off.

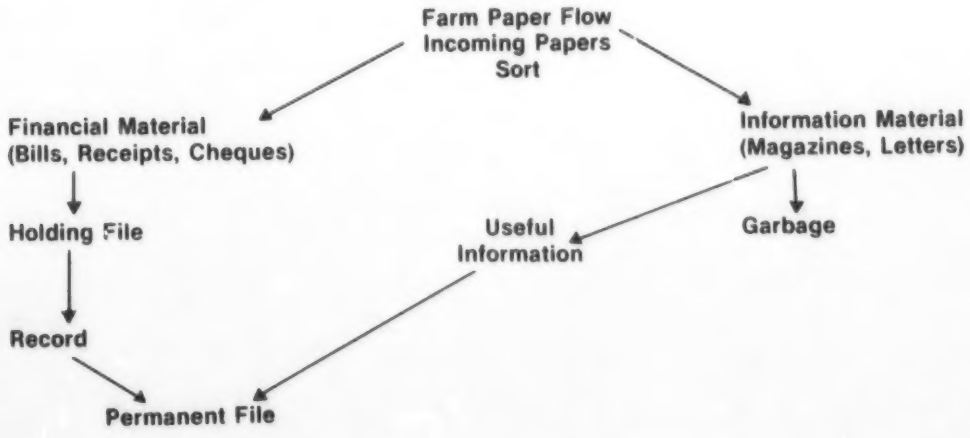
7. Monitoring Your Operating Loan

Most banks provide a service of transferring money into your current account from a preauthorized line of credit or operating loan. Maintaining financial control is difficult under these circumstances. Some banks will provide a monthly operating loan statement which indicates increases or decreases in your operating loan. The operating loan statement should be checked against your current account statement. Without a monthly operating loan statement, it is difficult to monitor an operating loan and do a complete check on your current account bank statement.

Handling the Paper Flow

There are basically four steps involved in handling the flow of paper on the farm.

a) sorting material
b) holding material prior to recording and filing
c) recording into an account book
d) filing material



1. Materials and Equipment

To make the accounting process more efficient, set aside an area where you can keep all materials for farm accounting. A special room or office is the ideal situation where you can spread out records and invoices and don't have to gather them up at meal time as you do if you use the kitchen table.

A few supplies will help make work more efficient and ensure easy retrieval of records.

a) Temporary file
You can use a large envelope, file folder with the sides stapled, a pouch calendar, a desk drawer, or a box to act as a temporary file for all bits of paper relating to the farm business.

b) Account book
You will need a account book in which to enter all of the farm income and expenses. There are several account books that can be purchased or you can buy a ledger book (available with up to 36 columns)

c) Permanent file
A filing cabinet with file folders makes the best permanent file for all information except inflow and outflow documents. If you do not have a filing cabinet a deep desk drawer, an expandable file folder, or cardboard box will suffice.

For financial inflow and outflow items use a shannon file. a bright colored cardboard divider can be used to separate inflow from outflow items. As you enter each item in your records from your reconciled cheque register, two hole punch the invoice or document and file it in the shannon file on the appropriate side of the divider. By using this method all your inflow and outflow documents are in the same order as your account book and reconciled cheque register. At year end put the contents of your bank and income tax files in the shannon file.

d) Waste paper basket

e) Cheque book

f) Duplicate receipt book

g) Calculator

h) Stapler

i) Writing pads, stamps and envelopes

2. Sorting Material

Sort financial documents, bills, cheques, receipts, and bank statements from non-financial business papers. Immediately discard informational material that is of no use and set aside information for future use for filing in an informational file. You can begin sorting at the post office. Separate the important letters containing invoices, bills, income and bank statements from all other material to ensure that these important documents are not lost. If not separated a bill or cheque may fall down behind the truck seat or may become lodged in a flyer and thrown out by mistake.

3. Holding Business Documents Prior to Recording

The purpose of a holding file is to temporarily hold the business documents in one place until you are ready to record them. You are less likely to lose business papers if you keep them in one place.

If you do your records daily, weekly or monthly, your holding file need not be elaborate, since the pile of business papers never gets too large prior to filing.

Some examples of possible holding files are:

i) Stick files - simply stick bills or receipts onto the nail each evening after the day's business is completed.

The documents will be in order of date and ready to record. Write any additional information that you need to keep on the document at the time of recording while it is fresh in your mind. This may be information on what the bill or cancelled cheque was for, whether the bill was paid by cheque or cash, quantities, grades, or any other particulars. Use more than one stick if you want to keep some transactions separate from others.

ii) Expandable file - use one or two of the front pockets of the file for holding business papers prior to recording in the record book. The back pockets can be used for permanent files.

iii) Desk drawer - set aside one drawer of a desk to be used as the holding file.

The main points to remember about a holding file are:
- keep all bills and receipts in one place
- make sure all members involved in the farm operation know the location of the file.
- write any information on the bills and receipts which will be required at the time of recording. A description of a repair will be more useful than a part number when you are recording.

iv) A pouch calendar such as the one sold at rural service centers by Farming to Win

4. Recording

Recording is the act of listing farm transactions in some specific order. The purpose of listing transactions is to arrive at expense totals for items like total machinery repair, total fuel costs and income totals. Ultimately all income and expenses are totaled for one year and the difference between the total income and the total expenses is calculated. The figure is termed net cash income and it is the basis for filing income tax.

When you record and total transactions often, you develop a feel for where the farm business is, financially. You can spot cash flow problems quickly as well as receive advance warning of what your taxable income will be, enabling you to make adjustments if required.

Source for Recording

You can record directly from your reconciled cheque register for items paid by cheque and deposits to the bank account. Cash purchases can be entered directly from invoices.

If you use this method compare the cheque register with the original bill to ensure that all bills have been paid and to uncover possible cash transactions not recorded in the cheque register.

The Advantage of recording from the reconciled cheque register is that it is impossible to leave out of your records any expenses paid by cheque or income deposited in the bank. File each invoice as it is recorded. When you have recorded all the invoices paid by cheque for the month the rest must have been paid for with cash.

b) Farm Accounting Systems Available

i) **Account Books**
A variety of account books are available. Most provincial departments of agriculture have developed farm account books. Account books are set up to determine net cash income for filing an income tax return. When you use an account book you are less likely to forget to transfer an income or expense item forward to the summary than when you use a ledger system. Your account books never have to leave the farm as do the mail in computer systems. However, analyzing your total farm or one enterprise does require many manual calculations with this system.

Record Books Available:
- Prairie Farm Account Book - Saskatchewan Wheat Pool, Farm Service Centers

The Prairie Farm Account Book has sections for income expenses, wages, credit accounts, inventories, net worth, income tax records, and Capital Cost Allowance schedule.

ii) **Ledger Systems**
By buying a ledger book (available with up to 36 columns) from a stationery store you can set up your own account book. An advantage of developing your own account book is that you can use your own headings so you eliminate all the headings that don't apply to your operation.

The sections you will require in your personalized accounting system are:

Expenses
Income
Wages
Credit Accounts
Inventories
Net Worth
Accrual Income Statement
Income Tax - Statement of Income and Expenses
- Capital Cost Allowance schedules

You may want to include a section on physical records where you can keep track of things such as yields for each field, results of using different chemicals, results of different rates of fertilizer or different field operations.

5. Filing

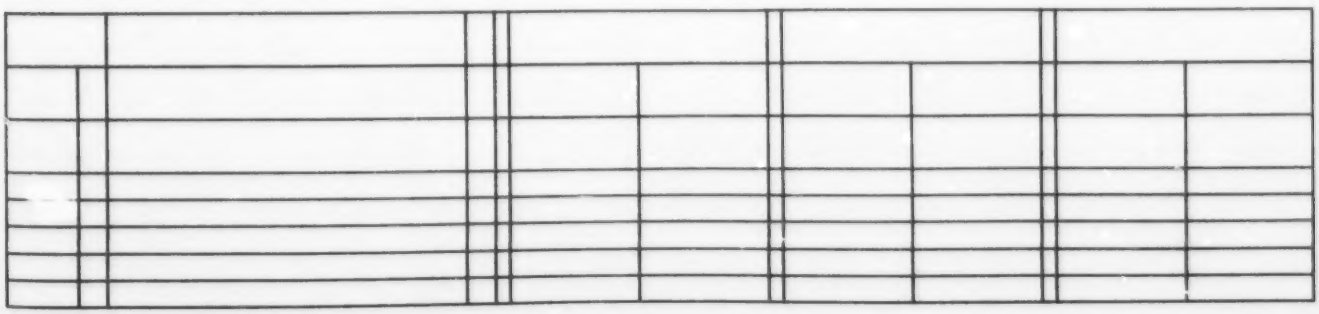
The fourth and final step in handling the paper flow is setting up a good filing system to store documents once you have recorded them. A good filing system will prove itself to be worth the time and effort involved in developing and keeping it. After entering information from a document in the farm record book, place the document in either the inflow or outflow section of the shannon file.

As well, set up a file where you can store information under such headings as Correspondence, Crop Production, Livestock Production, Machinery Repair and other topics of interest.

An example of headings for a filing system would be:

Bank

Example of Ledger Book



Correspondence
Crop Production
Income Tax
Insurance
Inventories
Legal Documents
Livestock Production
Machinery Repair
Personal Expenses
Wages
Warranty Information

Income Tax Considerations

This section does not give a detailed discussion of farm income tax. Saskatchewan Agriculture's publication "Income Tax for Farmers" is a detailed guide in income tax and if you do not have one, obtain a copy from your rural service center before completing your tax return.

This section deals with completing income and expense records for tax purposes.

To finalize your income and expense reports for income tax there are two steps:

1) Totalling the various categories and obtaining overall totals for income and expense
2) Calculating capital cost allowance.

1) Cash or Accrual Accounting

Individuals, corporations, partnerships and trusts in the business of farming may use either the "cash" method or the "accrual" method when doing accounting for income tax purposes.

Most farmers use the cash method because it provides the most flexibility for reporting income. You determine the most opportune time to receive income and pay expenses. The cash method also requires simpler farm records than the accrual method.

a) Cash Method - Income is reported in the year it is received and expenses are deducted only in the year in which they are paid. For example, if you charge your 1989 fertilizer purchase and pay for it in 1990, it is an expense for the 1990 taxation year.

b) Accrual Method - You report income in the year you earn it, regardless of when you receive payment. You deduct expenses in the year in which they are incurred, whether you paid them that year or not. You can adjust the cash income statement to create an accrual income statement by including changes in the values of farm inventories and credit accounts for the beginning and end of year and annual depreciation. You must file a balance sheet with your income tax return.

2) Calendar or Fiscal Year Reporting

Some farm businesses may find it useful to report income according to a chosen fiscal year (eg July 1 to June 30) rather than on a calendar year basis (January 1 to December 31). If you receive a large portion of your annual income in one part of the year, beginning the fiscal year just prior to the receipt of that Income may delay the payment of income tax. Revenue Canada must grant permission before you can make a change in a fiscal year. However, if you are a beginning farmer, you may start out using any fiscal year.

3) Statement of Farming Income and Expenses

Revenue Canada requires that you file a statement of Farming Income and Expenses with your Income Tax Return. When recording items in each section of the account book, keep all items of similar type either income or expense together. This will enable you, at the end of the accounting period, to obtain a total for each expense item such as feed, fuel, machinery repairs as well as a total for each income item wheat sales, barley sales, cattle sales. Each year a blank income and expense statement is included in the Farmers Income Tax Guide. Keep in mid that the more breakdown you provide in your income and expenses, the less chance there is of Revenue Canada requesting more information about your return.

Accounting for Income and Expenses

1) Definition

Double entry accounting shows both effects of every transaction: where the money comes from (cash or bank) and where it goes to (cash or bank). In double entry accounting, equal debit and credit entries are made for every transaction. If only two accounts are affected, as in the purchase of fuel for cash, the cash account is decreased and the fuel account is increased. If more than two accounts are affected by a transaction, as in the purchase of a truck repair and tractor repair by cheque, then the bank account is decreased and the truck repair and tractor repair accounts are increased. For each transaction the sum of the increases must equal the sum of all decreases.

The system described has some similarities to the double entry system. In this system we have one section called "money inflow" and one section called "money outflow". The system accounts for all money that flows through the bank account so we must have additional columns to explain every outflow and inflow of money. The expense items will be entered in the money outflow section. For expenses we show where the money comes from whether a bank withdrawal (cheque) or cash, and what was purchased (ie fertilizer, figure 6). The income items will be entered in the money inflow section. In the case of an income item

we show what we did with the money received, whether bank deposit or cash and where the money came from (ie sale of grain, figure 7).

2) Advantages

Income or expense items that have been run through the bank cannot be left out of the records.

3) Disadvantages

Entering in this system does not require more time than single entry. If you reconcile your records to your Bank Statement it will require additional time but this procedure is extremely useful because it insures that all income and expenses in the bank statement are in your records.

4) Setting Up and Entering in the Outflow Section

Since there are likely to be more outflow entries than inflow entries, locate the money outflow section at the front of the account book.

The number of columns you need depends on how complex your farm is. Buy a ledger book only after you have decided on your money outflow and money inflow column headings. In the first year allow additional headings in case you decide to split one general area into two or create a new heading. Ledger books with up to 36 columns are available from bookstores or office specialty stores.

Select only the headings that are useful to you. If you have two livestock operations, repeat columns 24 to 28 for the second livestock enterprise.

Figure 6 is an example of the money outflow section. Some of the columns have been lumped together in this example but you may separate them in your own ledger.

The first two columns show the source of the money with which the outflow was paid. For each purchase you must show whether payment was made with cash or cheque.

Label the first column bank withdrawal. Enter all outflows that are paid either by cheque or by transfer from the bank account in this column.

The second column should be labelled cash paid. All outflows which were not paid by cheque or transfer must have been paid by cash.

Continue to label the columns with the headings of your choice until you have labelled all the columns on the left side of the first outflow page. To estimate how many money outflow pages are needed, allow one double page for each month plus two extra double pages for overflow and one double page for the annual outflow sum-

Suggested headings for the outflow section are:

General Area	Column Headings
	1 Date
	2 Description and Reference Nos.
Source of Payment	3 Bank Withdrawal
	4 Cash Paid
Car Expenses	5 Gas, Oil, Grease
	6 Repairs, License, Insurance
Fuel and Lubricants	7 Gasoline
	8 Diesel
	9 Grease and Oil
Machinery and Equipment Expenses	10 Equipment Repair & Maintenance
	11 Small Tools and Hardware
	12 Custom Work and Machinery Rent
Crop Expenses	13 Seed
	14 Fertilizer
	15 Chemicals
	16 Crop and Hail Insurance
Overhead	17 Phone, Power, Farm Heating Fuel
	18 Interest Paid
	19 Taxes, Insurance, Cash Rent
	20 Accounting, Legal Fees, Business Supplies and Other
Bldg. and Improvements	21 House Repairs and Heating Fuel
	22 Farm Building and Fence Repair
	23 Land Improvements
Livestock Enterprise	24 Vet and Medicine
	25 Salt, Feed, Supplements
	26 Livestock Supplies
	27 Livestock Purchased
	28 Breeding Fees, Pasture Rent
Other	29 Wages
	30 Principal Repaid
	31 Capital Purchase
	32 Investment
	33 Income Tax Paid
	34 Other Farm Expenses
	35 Items purchased for others
	36 Personal

mary. Continue labelling on the right side of the last outflow page (the summary page). Cut the tops off all the pages in between so you can see the labels from each page and do not have to label each page. You are now ready to enter your outflow starting a new double page for each month.

When entering outflow be sure to record the date of the transaction, the person or business you paid the money to, the invoice number and a brief description. If you don't enter a description it may be difficult to trace a particular item in the future. Leave two lines at the bottom of each page for totalling columns.

At the end of each month or when each page is completed, total each vertical column. Add the bank withdrawal and cash paid totals to get a grand total. Add across the bottom of the page totalling all other columns to get a second grand total. The two grand totals must be equal (ie $65,905.56). If they are not equal, you have either made an adding mistake or you have not allocated the total amount of a cheque or cash paid to one or more outflow columns.

Year End Summary

At the end of the year the totals from each month can be transferred to the summary page. Use one line for each month or each page. When all the months or pages are transferred to the summary total each vertical column. Add the bank withdrawal and cash paid column totals to get a grand total. Add across the bottom of the page all other column totals to get a second grand total. The two grand totals must be equal (ie $140,617.71). If the grand totals are not equal, look for an error in transferring page totals to the summary or an adding error.

5) Setting Up and Entering in the Inflow Section

The inflow section will normally be the second largest section in your account book. Put the inflow section at the back of the book. That way both inflow and outflow can expand toward the middle of the ledger book.

The complexity of your farm will determine the number of columns required. Develop your list of column headings before you buy a ledger book.

Use as many headings as you need. When setting up the column headings for crop sales, consider the grain on hand as well as the current year's production. If you have two or more livestock enterprises, you may require more columns for livestock sales.

Figure 7 is an example of the money inflow section. (Some of the columns have been lumped together).

The first two columns show the destination of any inflows of money. For each inflow you must show where the money came from and where it went to, whether cash or bank deposit.

To decide how many inflow pages will be required as a minimum

The following are suggested headings for the money inflow section:

General Areas	Column Headings
	1 Date
	2 Description and Ref. Nos.
Destination of Income	3 Bank Deposit
	4 Cash Received
Crop Sales	5 Wheat - quantity
	6 - value
	7 - quantity
	8 - value
	9 - quantity
	10 - value
	11 - quantity
	12 - value
Other Crop Income	13 Wheat Board Payments
	14 Government Payments
	15 Stabilization Payment Received
	16 Stabilization Levy Paid*
	17 Insurance Proceeds Crops
	18 Insurance Proceeds Other
	19 Machinery Custom Work and Rental
Livestock Income	20 - number
	21 - value
	22 - number
	23 - value
	24 Other Livestock Income
Other	25 Principal Borrowed
	26 Capital Sales
	27 Patronage Allocation
	28 Equity Accounts Receivable*
	29 Gross Employment Income
	30 Income Tax Paid*
	31 Other Employment Deductions*
	32 Investment
	33 Other Farm Income
	34 Items Purchased for others
	35 Personal

* these are negative columns and must be subtracted when checking column totals

allow one double page for each month plus two double pages for overflow and one double page for the inflow summary.

Label the first column bank deposit. All income that is deposited into or transferred to the bank account is entered under this heading.

Label the second column cash received. All inflow which is not deposited in the bank must be in the form of cash.

Continue to label the columns with headings of your choice until you have labelled all the columns on the left side of the first outflow page. Continue labelling on the right side of the last inflow (summary) page. Cut the tops off all the pages in between so you can see the labels from each page. You are now ready to enter your inflow starting a new double page for each month.

When entering inflows be sure to record the date of the transaction, the person or business you received the money from, the invoice number, and a brief description. If you don't enter a description it may be difficult to trace a particular item in the future. Leave two lines at the bottom of the page for totalling columns. At the end of each month or when a page is completed, total each vertical column. The column totals for quantities of grain and livestock should be shaded as in figure 7. Add the bank deposit and cash received totals to get a grand total. Add across the bottom of the page totalling all other columns (except the shaded quantity totals) and subtracting negative columns to get a second grand total. The two grand totals must be equal (ie $95,851.51). If they are not equal you have either made an adding mistake or you have not allocated the total amount of one inflow to one or more inflow columns.

Check the Accuracy of Your Records

At the end of the month check your account book with the bank reconciliation in the following way:

Figure 8 can be used as a worksheet to reconcile your account book to your bank statement. Start by bringing forward last month's ending true balance figure. From the outflow section bring forward the total bank withdrawals. From the inflow section bring forward the total bank deposits. Subtract the total bank withdrawals from the previous month's true ending balance, then add the total bank deposits to obtain a calculated bank balance. Next, adjust this figure by the withdrawals and deposits shown on the bank statement that weren't recorded in your records. This gives you a "true balance" as far as your account book is concerned.

The second step in reconciling to your bank statement is to adjust the ending balance on your bank statement by the cheques and deposits that are recorded in your books but not shown on the bank statement. This calculated figure represents the true balance and should agree with the true balance calculated from your account book and cheque register. If there is a discrepancy between these figures, items have been missed or recorded incorrectly and should be investigated further.

Year End Summary

At the end of the year, transfer the totals from each month to the summary page. Use one line for each month or each page. When all the months or pages are transferred to the summary, total each vertical column. Shade the column totals for quantities of grain and livestock as in figure 7. Add the bank deposit and cash received totals to get a grand total. Add across the bottom of the page totalling all other columns (except the shaded quantity totals) and subtracting negative columns to get a second grand total. The two grand totals should be equal (ie $183,112.11). If they are not equal, look for a mistake in adding or in transferring the page totals to the summary page.

6) Handling the More Difficult Entries

There will always be some transactions which are difficult to record. If you are not sure how to make an entry, attempt to enter it and put a colored star beside the entry so you can identify it later. Another method of dealing with problem entries is to write the details in the notes section of the account book and to review and deal with their problems at year end. When problem transactions occur, deal with them as completely as possible at the time and if questions remain, note the circumstances for future reference.

a) Patronage Dividends

The total amount of the patronage dividend declared during the year is taxable. In the inflow section under bank deposit enter the amount of the dividend received by cheque. In the patronage allocation column enter the total amount of the patronage allocation. In the income tax deducted at source column enter the income tax deducted. The patronage payment withheld is the total dividend minus the amount actually received minus the income tax withheld. Enter the patronage payment withheld in the "equity accounts receivable" column. The "equity accounts receivable" and "income tax deducted at source" columns are both negative columns and must be subtracted when checking column totals with bank and cash totals. A negative entry should be shown by placing brackets around the negative amount eg. ($10.00).

b) Employment Income

When you receive employment income with income tax and other deductions, the following method can be used to keep track of total gross employment income, total tax deducted at source, and total other deductions. Enter the net in-

come under "bank deposit" or "cash received". Enter gross income under "gross employment income". Enter income tax deducted under "income tax deducted" (a negative column). Enter all other deductions under "other employment deductions" (a negative column). An example is shown in figure 7.

c) Income Tax Deducted at Source
For inflow items which have income tax deducted such as employment income and patronage dividends, enter the amount of income tax deducted in this column. As indicated above, this is a negative column and the amount must be subtracted when checking column totals. (If you make an income tax installment enter it in the outflow section under income tax paid.)

d) Canadian Wheat Board Cash Advance
As of Jan 1, 1985 the Canadian Wheat Board Cash Advance is considered as a loan for income tax purposes. The change was actually made in 1985 retroactive to Jan 1, 1984. For 1984 the cash advance can be handled as income or a loan for tax purposes. (Prior to Jan 1, 1984 it was considered income when received). When you sell grain and the advance repayment is deducted from the grain cheque, enter as income the gross amount of the grain cheque before the amount deducted to repay the cash advance.

e) Stabilization Levies
If you want to keep track of the amount of levies paid such as the Western Grain Stabilization Levy, the following method can be used. For example is an inflow entry of $3,000 worth of wheat with $30 deducted for Western Grain Stabilization. Under bank deposit enter the net amount of the cheque. Under wheat quantity enter the number of tonnes sold. Under wheat value enter the gross value of wheat sold. Under stabilization paid enter ($30). Insert brackets around the $30 because the stabilization paid is a negative column and must be subtracted when checking column totals.

f) Capital Items Under Construction
At the back of the record book set up a section for capital items under construction. As you pay individual expenses, enter them in the outflow section under capital purchases and file the invoices with other outflows. Enter construction expenses again in this section at the back of the book to determine the total cost of the item under construction.

g) Purchasing an Asset With a Trade In

Two methods of recording:

1) Recording Gross value of Capital Purchase and Sale

Consider a trade where there is some personal cash ($10,000) and money borrowed ($11,000) to purchase an asset ($48,000) with an accompanying trade in ($27,000). The cash and loan will be equal to the net cash difference between the new machine and the trade in. Set up a new account payable if the loan is new (Figure 10) or add the amount borrowed if it is an addition to an existing loan. If the loan is received from the dealer, enter it in the inflow section, principal borrowed column, and also in the cash column (Figure 7, line 8). Enter the trade in of 27,000 on a separate line under cash received and Capital Sales. The offsetting entry of 38,000 under Cash Received and Cash paid is required in order to enter the total amount under Capital Sales and Capital Purchases. Show the purchase of the new asset in the outflow section by entering the purchase price of the new asset under Capital Purchase. Enter amount paid by cheque under Bank Withdrawal. Enter the total of trade in and amount financed in Cash column as an offsetting entry (Figure 6). Accounting for the new and old assets in the capital cost allowance is discussed in the income tax section.

2) Recording the net cash difference of the Capital Sale

Show the purchase of the new asset in the outflow section by entering the cash difference between the old and new assests in the bank withdrawal and capital purchase columns. This method is the easier of the two, but does not accurately reflect the total capital purchases and capital sales for the year.

h) Land Rental
Crop share rental payments are not recorded as expenses unless the landlord's share of the crop is recorded as income.

Cash rental payments are included as an expense. Record cash rental of cultivated land as a crop expense. Enter pasture rental fees as a livestock expense.

i) Land Improvement
Enter amounts paid during the year for clearing breaking, or drainage for the purpose of farming in the land improvement column.

j) Water Wells
You may claim the cost of drilling water wells as an expense in the year paid. Enter the cost of the casing, cribwork, pump and distribution system as a capital purchase.

k) Rebates of an Expense
Rebates of an expense such as gasoline tax rebates must be included in income where a government agency makes a grant for the purpose of increasing our income or reducing your expense, you may either add that amount to your income or deduct it from specific expenses.

l) Small Tools
Tools purchased for more than $200 should be entered in class 8 as a capital purchase for income

tax. In your account book enter in the capital purchase column.

Tools you buy for less than $200 can either be entered as an expense in the small tools column, or entered in class 12 (Capital Purchase column) if you want to carry the expense forward to another year.

m) Deferred Cash Tickets

Cash tickets for grain are income on the date they are issued unless they are deferred into the next taxation year by the elevator agent. If you defer a cash ticket to January 1, 19x1, then it becomes income when it can be cashed January 1, 19x1.

7) Filing System

a) This accounting system has two main sections. Each entry is either an inflow or an outflow item. A Shannon file can be used to store the entered inflow and outflow items. As you enter each item in the record book, two-hole punch each voucher and file in the order of entering. Inflows and outflows can be separated using a cardboard divider.

b) A bank file consisting of an envelope or manilla folder can be used to store cancelled cheques and bank statements.

c) An income tax file consisting of an envelope or manilla folder should be set up. Place all vouchers for medical expenses and charitable donations (after entering in the personal column, outflow section) in this file since you may require these items to send with your income tax return. Also include in this file any T4 slips, tax information slips, correspondence to do with your income tax return, and your income tax return.

At year end place the bank file, tax file and any other files in the Shannon file.

Figure 6

OUTFLOW PAGE 12

DATE 88-DAY	DESCRIPTION	CHEQUE NUMBER	BANK WITHDRAWAL	CASH	REGULAR GAS	DIESEL	OIL GREASE	EQUIPMENT R+M	CAR GAS	CAR OTHER EXP	1/2 TON R+M	SM. TOOLS HARDWARE	FARM BLD R+M	HOUSE R+M+GAS	POWER	TELEPHONE
Dec 1	Peavy Mart wrench for B Jones	253	$12 00													
Dec 3	Esso car gas + car headlight	254	$30 00						$20 00	$10 00						
4	Sask Tel November	255	$52 18													$52 1
4	JD Sales purch 4640 tractor	256	$10000 00	$38000 00												
5	Princess Auto repairs + tools	257	$225 00					$175 00				$50 00				
6	Sask Power	258	$491 00											$66 00	$425 00	
Dec 8	Shell November	259	$960 00		$260 00	$375 00	$25 00									
8	Farm Credit (life ins pers)	260	$6355 63													
9	Co-op Store November	261	$619 00									$19 00				
10	GM Dealer repairs 1/2ton+3ton	262	$108 00					$62 00			$46 00					
Dec 10	Instant Teller withdrawl pers		$150 00													
14	Junes Fashions	263	$105 0													
15	Chargex November personal	264	$62 00													
Dec 31	Sask Pool heritage	265	$1200 00													
17	Sams Seed Cleaning cl Katepwa	266	$110 00													
17	Beaver Lumber patch wall house	267	$7 50											$7 50		
18	Kids Cloths Store	268	$85 0													
Dec 19	Drug Store stationary + pens	269	$20 00													
29	Freds Fertilizer 35-15-0 @230	270	$6000 00													
29	cash at Bank	271	$400 00													
30	Reverse Canada Income Tax Inst	272	$1000 00													
Dec 31	Bank Interest Operating Loan		$200 00													
Dec 31	Bank service charge		$6 00													
Dec 15	Truck Wash			$2 5							$2 50					
20	Car Wash			$2 00						$2 00						
29	H Hardware light bulbs shop			$2 75									$2 75			
	TOTALS THIS PAGE		$27898 31	$38007 2	$260 00	$375 00	$25 00	$237 00	$20 00	$12 00	$48 50	$69 00	$2 75	$73 50	$425 00	$52 1
	GRAND TOTALS THIS PAGE		$8590	$8590 56												

OUTFLOW SUMMARY

DATE 88-DAY	DESCRIPTION	CHEQUE NUMBER	BANK WITHDRAWAL	CASH	REGULAR GAS	DIESEL	OIL GREASE	EQUIPMENT R+M	CAR GAS	CAR OTHER EXP	1/2 TON R+M	SM. TOOLS HARDWARE	FARM BLD R+M	HOUSE R+M+GAS	POWER	TELEPHONE
	OUTFLOW PAGE 12		$27898 31	$38007 25	$260 00	$375 00	$25 00	$237 00	$20 00	$12 00	$48 50	$69 00	$2 75	$73 50	$425 00	$52 1
	TOTALS YEAR TO DATE		$102544 34	$38073 37	$1416 95	$3615 38	$599 84	$5838 38	$1297 64	$1229 13	$869 37	$1169 17	$713 40	$1896 28	$1910 09	$6 7 6
	GRAND TOTALS YEAR TO DATE			140617 71	140617 71											

T.ONE	INTEREST	LAND TAX	ACCOUNTING LEGAL	LAND IMPROVE.	FERTILIZER	CHEMICALS	SEED	CROP+HAIL INSURANCE	CUSTOM WORK	WAGES CPP.	LIVESTOCK EXPENSES	LIVESTOCK PURCHASED	INCOME TAX PAID	PRINCIPAL PAYMENTS	CAPITAL PURCHASES	GRAIN PURCHASED	OTHER FARM EXPENSES	INVESTMENT	PERSONAL	ITEMS PURC. FOR OTHERS
																				$12.00
2.18															$48000.00					
	$5006.74													$1064.68					$284.21	
																			$600.00	
																			$150.00	
																			$105.00	
																			$62.00	
						$1200.00														
							$110.00													
																			$85.00	
			$12.00																$8.00	
					$8000.00														$400.00	
													$1000.00							
	$200.00																			
			$6.00																	

2.18	$5206.74	$0.00	$18.00	$0.00	$8000.00	$1200.00	$110.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1000.00	$1064.68	$48000.00	$0.00	$0.00	$0.00	$1694.21	$12.00

PHONE	INTEREST	LAND TAX	ACCOUNTING LEGAL	LAND IMPROVE.	FERTILIZER	CHEMICALS	SEED	CROP+HAIL INSURANCE	CUSTOM WORK	WAGES CPP.	LIVESTOCK EXPENSES	LIVESTOCK PURCHASED	INCOME TAX PAID	PRINCIPAL PAYMENTS	CAPITAL PURCHASES	GRAIN PURCHASED	OTHER FARM EXPENSES	INVESTMENT	PERSONAL	ITEMS PURC. FOR OTHERS
2.18	$5206.74	$0.00	$18.00	$0.00	$8000.00	$1200.00	$110.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1000.00	$1064.68	$48000.00	$0.00	$0.00	$0.00	$1694.21	$12.00
7.69	$11366.00	$5414.73	$752.56	$10.00	$14621.31	$6325.02	$1138.06	$2357.95	$1732.19	$0.00	$235.08	$1245.50	$1000.00	$7064.68	$48000.00	$0.00	$139.61	$0.00	$16070.00	$12.00

gure 7
FLOW PAGE 12

DATE DD-DAY	DESCRIPTION	BANK DEPOSIT	CASH RECEIVED	SPRING WHEAT QUANTITY	SPRING WHEAT VALUE	DURUM QUANTITY	DURUM VALUE	CANOLA QUANTITY	CANOLA VALUE	MUSTARD QUANTITY	MUSTARD VALUE	QUANTITY	VALUE	C.W.B. FINAL PMT	GOVERNMENT PAYMENTS	INSURANCE CROPS
Dec 2	CWB Cash Advance	$29995.00														
3	Pool #3 Wheat @ $125/T	$77.53		5.420	$677.53											
Dec 4	R. Smith custom bale hauling	$100.00														
4	Hometown Co-op Pat. Dividend	$10.00														
Dec 4	JD Sales trade in 4630		$27000.00													
4	JD Finance loan for 4640		$11000.00													
Dec 15	Western Grain Stabilization	$14549.68														
16	UGG 2CW Durum @ $147/T	$271.60				15.453	$2271.60									
Dec 17	Special Cdn. Grains Program	$4819.90													$4819.90	
18	J. Brown personal debt	$150.00														
Dec 19	B. Jones payment for wrench	$12.00														
21	Cargill #1 Canola @ $300/T	$2100.00						7.000	$2100.00							
Dec 23	North.Sales #1 Mustards $250/T	$2700.00								10.800	$2700.00					
27	Bank transfer from savings	$2000.00														
Dec 30	School Dist. #344 Dec. salary	$900.00														
Dec 30	UGG #1 Wheat @ $145/T	$165.80		8.040	$1165.80											
	TOTAL THIS PAGE	$57851.51	$38000.00	13.460	$1843.33	15.453	$2271.60	7.000	$2100.00	10.800	$2700.00	0.000	$0.00	$0.00	$4819.90	$0.00
	GRAND TOTALS THIS PAGE		95851.51	95851.51												

.OW SUMMARY

DATE DD-DAY	DESCRIPTION	BANK DEPOSIT	CASH RECEIVED	SPRING WHEAT QUANTITY	SPRING WHEAT VALUE	DURUM QUANTITY	DURUM VALUE	CANOLA QUANTITY	CANOLA VALUE	MUSTARD QUANTITY	MUSTARD VALUE	QUANTITY	VALUE	C.W.B. FINAL PMT	GOVERNMENT PAYMENTS	INSURANCE CROPS
	INFLOW PAGE 12	$57851.51	$38000.00	13.460	$1843.33	15.453	$2271.60	7.000	$2100.00	10.800	$2700.00	0.000	$0.00	$0.00	$4819.90	$0.00
	TOTAL YEAR TO DATE	$144851.51	$38260.60	151.554	$14982.77	234.474	$26088.45	49.278	$11765.91	89.800	$17871.95	0.000	$0.00	$752.09	$7620.62	$0.00
	GRAND TOTALS YEAR TO DATE		183112.11	183112.11												

PROCEEDS OTHER	CUSTOM WORK	PATRONAGE ALLOCATION	(-) EQUITY ACCTS. REC.	W.G.S. RECEIVED	INTEREST INCOME	LIVESTOCK SOLD NUMBER	LIVESTOCK SOLD VALUE	PRINCIPAL BORROWED	CAPITAL SALES	HAY	INVESTMENT	OTHER FARM INCOME	PERSONAL OTHER	ITEMS PURCH. FOR OTHERS	EMPLOY.EXP REFUND	GROSS EMPLOY INCOME	(-) INCOME TAX DEDUCTED	(-) OTHER EMPLOY DEDUCTIONS	(-) CWB CASH ADV.REPMT
								$3000.00				($5.00)							$600.00
	$100.00																$15.00		
		$100.00	$75.00						$27000.00										
								$11000.00											
				$14549.68															$2000.00
													$150.00						
														$12.00					
											$2000.00								
																$1200.00	$200.00	$100.00	$1000.00
$0.00	$100.00	$100.00	$75.00	$14549.68	$0.00	0	$0.00	$41000.00	$27000.00	$0.00	$2000.00	($5.00)	$150.00	$12.00	$0.00	$1200.00	$215.00	$100.00	$3600.00

PROCEEDS OTHER	CUSTOM WORK	PATRONAGE ALLOCATION	(-) EQUITY ACCTS. REC.	W.G.S. RECEIVED	INTEREST INCOME	LIVESTOCK SOLD NUMBER	LIVESTOCK SOLD VALUE	PRINCIPAL BORROWED	CAPITAL SALES	HAY	INVESTMENT	OTHER FARM INCOME	PERSONAL OTHER	ITEMS PURCH. FOR OTHERS	EMPLOY.EXP REFUND	GROSS EMPLOY INCOME	(-) INCOME TAX DEDUCTED	(-) OTHER EMPLOY DEDUCTIONS	(-) CWB CASH ADV.REPMT
$0.00	$100.00	$100.00	$75.00	$14549.68	$0.00	0	$0.00	$41000.00	$27000.00	$0.00	$2000.00	($5.00)	$150.00	$12.00	$0.00	$1200.00	$215.00	$100.00	$3600.00
$0.00	$576.00	$404.19	$75.00	$28732.62	$946.51	0	$0.00	$41000.00	$27000.00	$0.00	$2000.00	$403.09	$150.00	$12.00	$0.00	$9695.82	$2589.90	$602.01	$3600.00

Figure 8
RECONCILING FROM YOUR CHEQUE REGISTER TO 1. YOUR BANK STATEMENT 2. YOUR ACCOUNT BOOK

AS PER YOUR ACCOUNT BOOK								AS PER BANK STATEMENT			
MONTH	PREVIOUS MONTH ENDING TRUE BALANCE	(-) TOTAL ACCOUNT BOOK BANK WITHDRAWLS	(+) TOTAL ACCOUNT BOOK BANK DEPOSITS	CALCULATED BANK BALANCE	ITEMS IN BANK STATEMENT BUT NOT IN ACCOUNT BOOK (-) WITHDRAWLS	(+) DEPOSITS	TRUE BALANCE	ENDING BALANCE ON BANK STATEMENT	BANK TRANSACTIONS IN CHEQUE REGISTER BUT NOT BANK STATEMENT (-) OUTST.CHEQUES	(+) OUTST.DEPOSITS	TRUE BALANCE
JANUARY											
FEBRUARY											
MARCH											
APRIL											
MAY											
JUNE											
JULY											
AUGUST											
SEPTEMBER											
OCTOBER											
NOVEMBER											
DECEMBER											

TRUE BALANCE FOR EACH MONTH MUST BE EQUAL

Wage Records

The suggested headings for wage records are as follows:

Figure 9

Date	May 31
Name of Employee	Joe Blow
SIN No.	635 217 612
1. Gross Pay	1600.00
2. Income Tax	308.60
3. Canada Pension Plan (employee)	26.39
4. Unemployment Insurance (employee)	25.02
5. Non-cash Benefits Board	150.00
6. Net Pay 1-2-3-4-5	1089.99
7. Workers' Compensation	
8. Canada Pension Plan (employer)	26.39
9. Unemployment Ins. (employer)	35.03
10. Total Labor Costs 1+7+8+9	1661.42
11. Cash Labor Outlay 10-5	1511.42

Accounts Payable and Receivable

Accounts payable are used to keep track of money you owe others. For example:

Figure 10

Loan Description	Date	Payments		New Loan	Balance Owing
		Int.	Princ.		
JD. Finance 4640 Tractor	Dec 4			$11000	$11000

Figure 11:

Loan Description	Date	Payments		New Loan	Balance Owing
		Int.	Princ.		
Canadian Wheat Board Cash Advance	Dec 2			30000	30000
	Dec 3		600		29400
	Dec 16		2000		27400
	Dec 30		1000		26400

Accounts Receivable are used to keep track of money that others owe you. For example:

Figure 12:

Loan Description

	Date	Payments		New Loan	Balance Receivable
		Int.	Princ.		
Co-op Patronage Dividend	Jan 1				400.00
	Dec 4			75.00	475.00

Captial Transactions

1. Construction Expenses

List all construction expenses for capital items on a separate page in addition to entering in the outflow section. This procedure will give you the total cost for each completed capital item.

Figure 13:

Construction Expenses for Capital Items

Date	Bin Construction Description	Value	Date	House Renovation Description	Value
June 1	Westeel Rosco	$1,800	Jan 15	Lou's Lumber	$345
June 14	Rental of Bin Erection Pole	25	Jan 20	Lou's Lumber	55
June 15	8 yards cement	600	Jan 20	Total Cost	$400
June 17	Rental of Cement Forms	20			
June 17	Total Cost	$2,445			

2. Capital Purchases

Set up a section of the account book to keep track of capital purchases of land, buildings and machinery.

Figure 14:

	Date	Description	Total Value
Land	Feb. 20	Purchased Brown Quarter SE 8-20-15-2	$50,000
Buildings	Feb. 20	Barn on Brown Quarter	$ 4,000
	Feb. 20	2 Wooden Bins on Brown Quarter, 1300 bu. @	1,000
Machinery	Dec 4	JD 4640 Tractor Serial #93526	48,000

3. Capital Sales

Figure 15:

Date	Description	Proceeds of Disposition	Expenses re: Disposition	Year Purchase	Orig. Cost	Value Dec. 31/71 (if applicable)
Land Feb.1	NE 27-20-14-2	$40,000	500	1965	10,000	16,000
Buildings Feb. 1	2 Wood Bins	400		1968	400	
Machinery Dec 4	JD 4630 Tractor Serial #23516	27,000		1973	17,000	

In addition to the proceeds of disposal (sale price or trade in value) keep additional information on capital sales for tax purposes. Expenses regarding disposition may be expenses such as advertising or legal fees. Any capital gain that occurs after December 31, 1971 is taxable so the year of purchase, original cost and value December 31,1971 columns provide this information.

Inventory and Net Worth

(1) The Inventory

Definition

A list of physical assets and their values at a certain date.

Purpose

Inventory provides a cut off point for the time period being analyzed and allows calculation of NET FARM INCOME or actual profitability of the farm rather than net cash income. NET FARM INCOME gives a true picture of a farms performance for one year.

Specific Uses

1) Creating a NET WORTH STATEMENT

- a list of all assets, and their values, and all debts, and calculation of the residual amount if all assets were sold and all debts paid

2) Farm Analysis
- calculating NET FARM INCOME (accrual basis)
- examination of income and expenses to enable better farm management decisions

3) Credit Applications

- to support applications for credit by showing evidence of security

4) Business Arrangements

- provides ownership records of shared farm assets such as machinery, livestock or grain
- helps determine contributions of each party in a sharing agreement

Inventory Procedures

When to Take an Inventory

- at the end of your accounting year, which is December 31 for most farmers
- the ending inventory of one year is used as the beginning inventory for the next year
- if a complete inventory can not be taken on December 31, it should be taken as it actually existed on that date, e.g. if inventory is done on January 15 make adjustments to show what was on hand on December 31.

Two Stages of Taking Inventory

1) physical listing of assets
2) valuation of assets

- include all farm assets owned, whether paid for or not
- include purchased items not yet delivered
- exclude items sold but not removed from the farm

Physical Listing

Owned Land
- List each parcel separately
- list total and cultivated acres

Owned buildings and improvements
- list all owned buildings and improvements and describe each as to size, year built, construction material
- improvements would include fences, wells, dams, dugouts, water system, roads, power and telephone
- the farm share of the farm home should be indicated.

Machinery and Equipment
- list each machine separately
- record make, size, model, year manufactured, mileage, hour meter reading, original cost
- indicate farm share of automobiles

Livestock
- record the number of each class of livestock - indicate weight, quality, age, breed

Grain and Roughage
- measure quantities or count the bales
- keep landlord's share separate

Farm Supplies
- list all farm input items used in farm production

- include fuel, oil, grease, building and fence supplies, fertilizer, chemicals, purchased seed, veterinary supplies and purchased feeds and supplements

Valuing the Inventory

- use realistic cash values that could be realized from the sale of assets
- round values to the nearest $10.00

Farm Land
- value at current market price for "bare land" without improvements

Farm Buildings
- use current market value
- what it adds to the sale value of the farm

Improvements
- value wells, dams, dugouts and water systems at cost less depreciation based on expected life

Power and Telephone
- value at initial cost of bringing such utilities to the farm

Machinery, Livestock, Grain and Roughage
- value at cash market value less costs of marketing

Farm Supplies
- value of cost

Credit Accounts

1) Accounts Payable

- The amounts of money you owe someone else:

Long Term Loans - purchase of land and buildings
Intermediate Term Loans - purchase of machinery, equipment and breeding livestock
Operating Loans - feeder cattle, fertilizer, fuel bills, etc.
Charge Accounts - farm supplies, personal expenses not paid for

2) Accounts Receivable

- The amounts of money owed to you by someone else such as:
  Loans owing to you

Charge Accounts - where someone hasn't paid for items bought
Retained Dividends - e.g. Co-op, Saskatchewan Wheat Pool or U.G.G. patronage dividends

In taking an inventory, first list all the assets you own whether paid for or not Set up a separate section for land, buildings and improvements, machinery and equip ment, breeding livestock, market livestock grain and roughage, and farm supplies. Figures 16-22 give an example of how to set up each section. Value all assets for the beginning and end of the year. Make a list of all personal assets such as car (personal share usually 1/3), house (personal share usually 3/4) savings and investments, personal accounts receivable, life insurance cash value and household effects. Value the personal assets for the beginning and end of the year.

Figure 16:
Owned Land 19_____

Legal Description	Cult. Area	Tax Assessment	Year Acquired	Purchase Cost	Value at Beginning of Year	Value at End of Year

Figure 17:
Buildings and Improvements 19_____

Type	Year Manufactured	Year Acquired	Purchase Cost	Value at Beginning of Year	Value at End of Year

Figure 18:
Machinery and Equipment 19_____

Type	Year Manufactured	Year Acquired	Purchase Cost	Value at Beginning of Year	Value at End of of Year

Figure 19:
Inventory of Livestock 19_____

	Beginning of Year				End of Year			
Type of Livestock	Number	Weight	Price	Value	Number	Weight	Price	Value

Figure 20:
Inventory of Grain and Roughage 19_____

Grain, Feed, Roughage (Operator's Share)	Beginning of Year			End of Year		
	Quantity	Price	Value	Quantity	Price	Value

* If you rent land on a crop share basis this method can also be used to keep track of the landlord's share.

Figure 21:
Inventory of Farm Supplies 19_____

Farm Supplies ie. (fuel, fertilizer, chemicals)	Beginning of Year			End of Year		
	Quantity	Price	Value	Quantity	Price	Value

Figure 22:
Livestock Checklist 19_____

Enterprise	No. At Beginnning of year	No. Born	No. Purchase	No. To Account For	No. Sold	No. Died	No. at end of Year	No. Accounted For

(2) Net Worth

You are now ready to complete the net worth statement (figure 23). Transfer totals from your inventory to the net worth statement. The accounts section will provide information on accounts receivable and payable.

Figure 23:
Net Worth Statement

Assets			Liabilities		
Current Assets	**Value**		**Current Debt(payment in 1 yr)**	**Amount**	
Cash on Hand	_____		Operating Credit (limit)	_____	
Bonds Stocks, Savings	_____		Accrued Interest	_____	
Accounts Receivable	_____		Accounts Payable - Fuel	_____	
Market Livestock	_____		- Supplies	_____	
Grain and Feed Inventory	_____		- Other	_____	
Supplies and Inv. in Crops	_____		Total Intermediate Principal*	_____	
Non Farm Business	_____		Total Long Term Principal*	_____	
Personal	_____		Non Farm Principal*	_____	
Other	_____		Personal Principal*	_____	
_____	_____		Income Tax Current Year	_____	
(A) Total Current Assets		_____	Household	_____	
			Other Payments*	_____	
Intermediate Assets			(E) Total Current Debt		_____
Breeding Livestock	_____				
Machinery and Equip.	_____		**Intermediate Debt (2-10 Years)****		
Non-Farm Business	_____		Breeding Livestock	_____	
Personal	_____		Machinery & Equipment	_____	
Other	_____		Non Farm Business	_____	
_____	_____		Personal	_____	
(B) Total		_____	Other	_____	
			(F) Total Intermediate Debt		_____
Fixed Assets					
Farm Real Estate	_____		**Fixed Debt (10 Years +)****		
Buildings	_____		Farm	_____	
Non Farm Real Estate	_____		Non Farm	_____	
Personal	_____		Personal	_____	
Other	_____		Other	_____	
(C) Total Fixed Assets		_____	(G) Total Fixed Debt		_____
(D) Total Assets A+B+C		_____	(H) Total Liabilities E+F+G		_____

Total Assets (D)		_____
– Total Liabilities (H)	–	_____
= Before Tax Net Worth	=	_____
– Deferred Tax Liability***	–	_____
= After Tax Net Worth	=	_____

* Principal payments due in one year or less plus any arrears
** Exclude current principal payments due in one year since listed as current debt
*** Deferred tax liability is the tax that would be payable for capital gain on land, recaptured capital cost allowance on machinery and buildings, and income tax on inventories if all assets were sold.

Income Tax

1. Capital Cost Allowance

The goal of a farm accounting system from an income tax point of view is to calculate net income from farming. To calculate this, you must calculate the capital cost allowance. Capital cost allowance is an expense which Revenue Canada allows you to use as a deduction in calculating net farm income.

There are two methods of computing capital cost allowance.

a) Part XI Diminishing Balance Method

All farm assets purchased after December 4, 1971 must be on the part XI method. Assets are grouped into classes and a percentage is taken of the balance in the class each year. The class and rates are listed on the last page of the Farmer's Income Tax Guide. You can use any rate from zero to the maximum rate in any year.

Example of Capital Cost Allowance Calculation.

Purchase Price of new tractor	$48,000
Value of Tractor Traded in	27,000
Original Cost of Tractor Traded in	17,000
Beginning balance class 10	43,333

List the new tractor under Class 10 in Part XI cost of additions as $48,000. List the old tractor under Part XI proceeds from Disposals $17,000.00

Depreciable assets purchased after November 12, 1981 will be subject to half of the applicable capital costs allowance in the year of purchase. Full capital cost allowance will be permitted in the years following the year of purchase. When a depreciable asset is purchased and a trade in is involved only the additional cost or the cash difference of the transaction will be subject to the half rate rule.

Since assets under the part XI method of capital cost allowance are grouped in classes the half rate rule can be handled by claiming the full capital cost allowance rate on the beginning balance in the class and the half rate on the increase in the class during the year.

The Part XI capital cost allowance schedule includes a method of handling the half rate rule.

Assets placed in Class 12 (small tools) are not subject to the half rate rule.

Figure 24

Part XI : Assets Purchased

Date	Class No.	Description	Total Cost
Dec 4	10	4640 tractor serial #93526	48,000
		Total Added Class 10	48,000
June 10	12	new saw $100.	100
July 15	12	new drill $150.	150
		Total Added Class 12	250

Part XI - Assets Sold

Date	Class No.	Description	Price Recieved	Origin* Cost
Dec. 4	10	4630 tractor serial #23516	27,000	17,000

* Complete only if the price received is greater than the original cost of the asset. Normally Column 4 (next page) of the Capital Cost Allowance Schedule includes the sales or trade-in value. However, if the price received is greater than the original cost, only enter the original cost in Column 4. The balance will be a capital gain.

(b) Part XVII Straight Line

The straight line method of calculating capital cost allowance applies to most depreciable assets acquired before 1972. Assets are listed separately. A percentage is taken of the original cost of the asset each year. The rates are listed on the last page of the Farmer's Income Tax Guide. You can use any rate from 0 to the maximum rate in any year.

Figure 25
Capital Cost Allowance Schedule (Part XI Method)

(1) Class No.	(2) UCC* at Beginning of Year	(3) Investment Tax Credit Earned in Prior Years and Claimed This Year	(4) Col. (2) minus Col. (3) (2)–(3)	(5) Cost of Additions (Net Business Portion Only)	(6) Proceeds from Disposals (Business Portion Only)	(7) Undepreciated Capital Cost after Additions and Disposals (4)+(5)–(6)	(8) ((5)–(6)) x 1/2	(9) (7)–(8)	(10) Rate %	(11) CCA** for This Year (10)x(9)	(12) UCC at End of Year (7)–(11)
10	43,333		43,333	48,000	17,000	74,333	15,500	58,833	30	17,650	56,683
12	0			250		250		250	100	250	0
							Total CCA This Year			$17,900	

*UCC - Undepreciated Capital Cost
**CCA - Capital Cost Allowance

Use the following table with the part XVII method:

Figure 26
Capital Cost Allowance (Part XVII Method)

(Not Applicable For Assets Purchased After 1971)

Year Acquired	Description of Asset	Orig. Cost	Rate %	Allow. this Year	Total Allow. For this and Prior Years	Date Sold or Traded	If Sold, Price Received
68	Steel Bin	1000	5	50	750		

(2) Statement of Farming Income and Expense

Each year two blank income and expense forms are included in the Farmers Income Tax Guide. If you decide to use this form, complete them both, keep one with your records and send the other with your tax return. If you wish you may design your own form. The following example (figure 27) is a farming Income and expense statement created from the ledger accounting system.

Only the columns that apply to Income Tax are transferred to the Taxable Net Income from Farming calculation. In some cases only a portion of the total expense columns are used. The % of total column shows what % of each expense total is transferred to the Taxable Net Income from Farming page.

Accrual Income Statement

An Accrual Income Statement indicates the value of farm production and subtracts from it the value of actual inputs used, to calculate NET FARM INCOME.

Many businesses keep their records on an accrual basis where they record actual production rather than cash sales and record actual inputs used other than cash expenses. Farmers are in a unique position because they can file their income tax on a cash basis, and it is advantageous for them to continue this practice. For farmers the easiest way to calculate NET FARM INCOME is to adjust their cash income statement by changes in inventory using the following method.

The accrual method of calculating Net Farm Income provides a better management indicator than Net Cash Income because it considers value of production rather than income and inputs used rather than inputs paid for. The accrual method adjusts cash income by any changes during the year in inventories, accounts receivable and payable, accrued interest and actual depreciation. The result is Net Farm Income.

Net Farm Income is the return to the operators management, operator & family labor, and owners equity.

To complete the following calculation Total Farm Cash Income and Total Farm Cash Expenses can be obtained from either your account book or your income tax farm income and expense statement. Other information can be obtained from the beginning and ending Net Worth Statement.

TAXABLE NET INCOME FROM FARMING

INCOME	QUANTITY	% TOTAL	VALUE
Spring Wheat	151.554	100	$14982.77
Durum Wheat	234.474	100	$26065.45
Canol	49.278	100	$11765.91
Mustard	89.800	100	$17871.95
Canadian Wheat Board Final Payment		100	$752.09
Government Payments		100	$7620.62
Crop Insurance		100	$0.00
Other Insurance		100	$0.00
Custom Work		100	$576.00
Patronage Allocation		100	$404.19
Western Grain Stabilization		100	$28732.62
Livestock	0	100	$0.00
Hay		100	$0.00
Other Farm Income		100	$403.09
GROSS FARM INCOME			$109174.69
EXPENSES			
Regular Gas		100	$1416.95
Diesel		100	$3615.38
Oil + Grease		100	$599.84
Equipment R+M		100	$5838.38
Car Gas		67	$869.42
Car Other Expenses		67	$870.42
1/2 Ton R+M		100	$869.37
Small Tools + Hardware		100	$1117.92
Farm Building R+M		100	$710.65
House R+M +Gas		25	$474.07
Power		70	$1337.06
Telephone		80	$462.15
Interest		100	$11372.00
Land Tax		100	$5414.73
Accounting,Legal		100	$746.26
Land Improvement		100	$10.00
Fertilizer		100	$14621.31
Chemicals		100	$8325.02
Seed		100	$1138.06
Crop +Hail Insurance		100	$2357.95
Custom Work		100	$1732.19
Wages C.P.P.		100	$0.00
Livestock Expenses		100	$235.08
Livestock Purchased		100	$1245.50
Grain Purchased		100	$0.00
Other Farm Expenses		100	$139.61
Total Cash Expenses			$65573.32
+ Capital Cost Allow.(part XI) (enter)			$17900.00
+ Capital Cost Allow.(part XVII)(enter)			$50.00
TOTAL EXPENSES			$83523.32
EXCESS OF INCOME OVER EXPENSES (Gross Income – Total Exp.)			$25651.37
+ Cost of Saleable Products Consumed (enter)			$500.00
TAXABLE NET INCOME FROM FARMING			$26151.37

Calculation of Net Farm Income: Accrual Method

Total Farm Cash Income			(A) _____
Ending Crops Inventory	+	_____	
Beginning Crops Inventory	−	_____	
Ending Livestock Inventory	+	_____	
Beginning Livestock Inventory	−	_____	
Ending Livestock Products Inventory	+	_____	
Beginning Livestock Products Inventory	−	_____	
Ending Accounts Receivable	+	_____	
Beginning Accounts Receivable	−	_____	
Value of Produce Used in Home	+	_____	
Total Adjustments	(B)	_____	
Adjusted Farm Income (A + B)			(C) _____
Total Farm Cash Expenses			(D) _____
Ending Supplies Inventory	−	_____	
Beginning Supplies Inventory	+	_____	
Ending Accounts Payable	+	_____	
Beginning Accounts Payable	−	_____	
Ending Outstanding Accrued Interest	+	_____	
Beginning Outstanding Accrued Interest	−	_____	
Depreciation	+	_____	
Total Adjustments	(E)	_____	
Adjusted Farm Expenses (D + E)			(F) _____
Net Farm Income (C − F)			= _____
− Operator and family labour			= _____
= Return to owners' equity			= _____

% Return to owners equity

$$= \frac{\text{Return to owners equity} \times 100\%}{\text{Owners equity}} = \text{_____}$$

The following accrual Income statement is a complete example of how to calculate Net Farm Income.

The cash income and cash expenses transferred to this Accrual income statement are the same as those transferred to the Taxable Net Income from Farming statement.

The adjustments to income and expenses can be taken from your annual inventory and/or your net worth statement. Accrued interest is the total interest on all loans which has accrued between the last payment and year end. Depreciation is the actual loss in value of machinery and buildings during the year.

NET FARM INCOME STATEMENT

			VALUE
CASH INCOME			
Spring Wheat			$14982.77
Durum Wheat			$26065.45
Canola			$11765.91
Mustard			$17871.95
Canadian Wheat Board Final Payment			$752.09
Government Payments			$7620.62
Crop Insurance			$0.00
Other Insurance			$0.00
Custom Work			$576.00
Patronage Allocation			$404.19
Western Grain Stabilization			$28732.62
Livestock			$0.00
Hay			$0.00
Other Farm Income			$403.09
TOTAL CASH FARM INCOME			$109174.69
Ending Crops Inventory	(enter)	+	$52700.00
Beginning Crops Inventory	(enter)	–	$70846.00
Ending Livestock Inventory	(enter)	+	
Beginning Livestock Inventory	(enter)	–	
Ending Livestock Products Inventory	(enter)	+	
Beginning Livestock Products Inventory	(enter)	–	
Ending Accounts Receivable	(enter)	+	
Beginning Accounts Receivable	(enter)	–	
Value of Produce Used in Home	(enter)	+	$500.00
TOTAL INCOME ADJUSTMENTS			($17646.00)
ADJUSTED FARM INCOME			$91528.69
CASH EXPENSES			
Regular Gas			$1416.95
Diesel			$3615.38
Oil + Grease			$599.84
Equipment R+M			$5838.38
Car Gas			$869.42
Car Other Expenses			$870.42
1/2 Ton R+M			$869.37
Small Tools + Hardware			$1171.92
Farm Building R+M			$710.65
House R+M +Gas			$474.07
Power			$1337.06
Telephone			$462.15
Interest			$11372.00
Land Tax			$5414.73
Accounting, Legal			$746.26
Land Improvement			$10.00
Fertilizer			$14621.31
Chemicals			$8325.02
Seed			$1138.06
Crop +Hail Insurance			$2357.95
Custom Work			$1732.19
Wages C.P.P.			$0.00
Livestock Expenses			$235.08
Livestock Purchased			$1245.50
Grain Purchased			$0.00
Other Farm Expenses			$139.61
TOTAL CASH EXPENSES			$65573.32
Ending Supplies Inventory	(enter)	–	$21508.00
Beginning Supplies Inventory	(enter)	+	$13070.00
Ending Accounts Payable	(enter)	+	$1000.00
Beginning Accounts Payable	(enter)	–	$2000.00
Ending Outstanding Accrued Interest	(enter)	+	$2736.00
Beginning Outstanding Accrued Interest	(enter)	–	$3093.00
Depreciation (Equip. + Buildings)	(enter)	+	$18265.00
TOTAL EXPENSE ADJUSTMENTS			$8470.00
ADJUSTED FARM EXPENSES			$74043.32
NET FARM INCOME			$17485.37

The last section of your book can be used to record those items that do not fit into the other sections. For example:

1. Identify those entries that you are unsure of, or do not know how to enter. These entries will have to be checked with an accountant, farm management specialist, or Revenue Canada official before filing you income tax.

2. Draw a farm map to record what crops were grown in each field for crop rotation purposes.

3. Production records.

4. List your share of assets which are owned in partnership with other individuals.

5. Off farm income records.

6. Personal expense records.

7. Household expense records.

Personal Spending Calculation

To calculate your total personal spending the following items should be taken into account. The personal share of each item in the calculation below is the share not used by the business in the Taxable Net Income calculation. The personal portion of any assets used for business and personal (i.e. car) is entered in personal share capital purchases. Enter the personal spending from your spouses account.

At year end subtract the amount of farm expenses said for by cash from personal spending. This is necessary because during the year the total amount of cheques written for cash were entered in the personal column and some cash was later used to pay for farm expenses.

Personal Spending Calculation

Personal column Outflow	$16,070.00
+ Personal share car gas	+ 428.22
+ Personal share car other expenses	+ 428.71
+ Personal share house R+M	+ 1422.21
+ Personal share Power	+ 573.03
+ Personal share Telephone	+ 115.54
+ Income Tax paid	+ 3589.90
+ Personal share Capital Purchases (enter)	
+ Personal spending spouses acc. (enter)	
– Farm expenses paid for with cash	– 73.37
Total Personal Spending	$22,554.24

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